

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 NSC-05
SS-15 STR-07 CEA-01 L-03 H-01 DODE-00 PA-01
ARA-10 INT-05 /119 W
-----063748 201951Z /46

R 201745Z MAR 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5124
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBSSY MADRID
AMEMBASSY PARIS
AMCONSUL OPORTO
AMCONSUL PONTA DELGADA

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 2055

BRUSSELS FOR USEEC

GENEVA FOR USMTN

PARIS ALSO FOR OECS

E.O. 11652: N/A
TAGS: ECON EFIN PO
SUBJECT: ECONOMIC DEVELOPMENTS

SUMMARY: HAVING SUBMITTED ITS REVISED 1978 BUDGET AND INVEST-
MENT PLAN TO THE NATIONAL ASSEMBLY, GOP IS ANXIOUS TO RESUME
NEGOTIATIONS WITH IMF. AUSTRIA AND THE UNITED KINGDOM HAVE
CONCLUDED BILATERAL AGREEMENTS FOR THEIR PARTICIPATION IN THE
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COORDINATED LOAN PROGRAM; HOLLAND AND JAPAN ARE EXPECTED TO DO
SO SHORTLY. PORTUGAL'S TRADE DEFICIT REACHED A RECORD 2.95
BILLION DOLLARS IN 1977. THE NATIONAL ASSEMBLY APPROVED, IN
PRINCIPLE, NEW WORKER-MANAGEMENT LEGISLATION. AMERICAN-
OWNED MUNDET FACTORY IS RETURNING TO NORMAL. FEBRUARY
CONSUMER PRICE INDEX RISES 23.7 PERCENT OVER FEBRUARY
1977. ESCUDO/DOLLAR BUY RATE PASSED E41/\$1 FOR FIRST

TIME. END SUMMARY.

1. GOVERNMENT AND PUBLIC AWAIT RENEWED IMF NEGOTIATIONS: THE PORTUGUESE GOVERNMENT AND PUBLIC AWAIT, WITH SOME FOREBODING, THE RESUMPTION OF FORMAL IMF NEGOTIATIONS NOW THAT THE GOP HAS SUBMITTED A REVISED 1978 BUDGET AND INVESTMENT PLAN. THE NEW BUDGET AND PLAN ANTICIPATE A 3 PERCENT GNP GROWTH THIS YEAR COMPARED TO 6.2 PERCENT IN 1977. THESE DEVELOPMENTS HAVE RENEWED INTEREST IN THE CON-SORTIUM LOAN. THE GOP RECENTLY SIGNED BILATERAL LOAN AGREEMENTS, PART OF THE OVERALL \$750 MILLION PACKAGE, WITH AUSTRIA AND THE UNITED KINGDOM; IT SHOULD SOON CONCLUDE SIMILAR AGREEMENTS WITH HOLLAND AND JAPAN. THE IMF HAS ACCEPTED, AFTER SOME HESITATION, THE SOARES GOVERNMENT'S INVITATION TO RETURN TO PORTUGAL, PROBABLY ON MARCH 29. IN THE MEANTIME, GOP POLICYMAKERS CONTINUE TO GRAPPLE WITH DIFFICULT DECISIONS ON INTEREST RATES, EXCHANGE POLICY, AND CREDIT CEILINGS, ISSUES THAT MUST BE RESOLVED TO CONCLUDE A FORMAL GOP-IMF AGREEMENT. WHILE RIGHT-WING COMMENTATORS GRUMBLE ANEW OVER WHAT THEY PERCEIVE AS PORTUGAL'S LOSS OF SOVEREIGNTY TO THE "U.S-DOMINATED" IMF, THE PUBLIC AWAIT HARSHER NEWS AS THE WORD AUSTERITY BECOMES A PART OF THEIR DAILY CONVERSATIONS.

2. 1977 TRADE DATA: THE NATIONAL STATISTICAL INSTITUTE HAS ISSUED PRELIMINARY TRADE FIGURES REVEALING A 1977 LIMITED OFFICIAL USE

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TRADE DEFICIT OF SOME \$2.95 BILLION. THIS FIGURE FAR EXCEEDS GOP PROJECTIONS OF ONLY LAST NOVEMBER WHICH FORESAW A DEFICIT OF \$2.5 BILLION FOR YEAR. (EMBASSY PROJECTIONS IN APRIL (77 A-137) AND NOVEMBER 1977 HAD FORECAST A DEFICIT OF \$2.7 BILLION.) THIS PRELIMINARY DATA COULD COMPLICATE THE UPCOMING GOP/IMF NEGOTIATIONS AND CAUSE THE FUND TO QUESTION GOP PROJECTIONS FOR 1978 IN WHICH EXPORTS ARE FORECAST TO RISE BY 7 PERCENT AND IMPORTS TO FALL BY 6 PERCENT.

3. GOP TRADE DELEGATION IN CUBA: A PORTUGUESE TRADE DELEGATION, LED BY SECRETARY OF STATE FOR EXTERNAL COMMERCE CARLOS FELIPE, VISITED HAVANA FOR TRADE DISCUSSIONS. THREE MAJOR PORTUGUESE COMPANIS HAVE REPORTEDLY SIGNED BARTER AGREEMENTS INVOLVING PORTUGUESE EXPOTS OF METAL PRODUCTS, CORK AND SHIPBUILDING SERVICES IN RETURN FOR CUBAN SUGAR. THE DELEGATION PLANS TO VISIT MONTREAL AND NEW YORK TO INSPECT PORTUGUESE EXPORT PROMOTION ACTIVITIES IN THOSE CITIES.

4. NATIONAL ASSEMBLY ACCEPTS PRINCIPLE OF WORKER-MANAGEMENT: NATIONAL ASSEMBLY LAST WEEK PASSED, IN PRINCIPLE, TWO LAWS

ON WORKER-MANAGEMENT ("MAUTOGESTAO"). SOCIALIST PARTY
SPONSORED THE BILLS AND CDS PROVIDED VOTING, IF NOT PHILO-
SOPHICAL, SUPPORT. ASSEMBLY DEFEATED ALTERNATIVE BILL
SPONSORED BY COMMUNIST PARTY. PURPOSES OF THE TWO LAWS ARE:

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BRUSSELS FOR USEEC

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(A) TO PROVIDE LEGAL FRAMEWORK AND REGULATIONS FOR ENTER-
PRISES TAKEN OVER AND RUN BY WORKERS AFTER REVOLUTION;
(B) TO ESTABLISH PROCEDURE FOR DETERMINING WHETHER
WORKERS HAVE RIGHTFULLY ASSUMED CONTTROL IN CONTESTED
CASES (DECREE LAW 100/1); AND (C) TO CREATE NATIONAL INSTI-
TUTE FOR WORKER-MANAGED ENTERPRISES, INEA, WITHIN MINISTRY
OF LABOR (DECREE LAW 99/1). THE BILLS NOW GO TO COMMITTEE
FOR CONSIDERATION AND FINAL DRAFTING.
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5. MUNDET RETURNS TO NORMALCY: ASSISTED BY MINISTRY OF INDUSTRY, MANAGEMENT AND WORKERS AT MUNDET (AN AMERICAN-OWNED MANUFACTURER OF CORK PRODUCTS) REACHED AGREEMENT MARCH 7 TO END LONG-PENDING DISPUTE AND RETURN FIRM TO NORMAL OPERATION (77 LISBON 7844). AGREEMENT PROVIDES FOR MANAGEMENT GROUP COMPOSED OF FIVE MEMBERS: THE TWO PRESENT PRIVATE MANAGERS, ONE GOVERNMENT ADMINISTRATOR, AND TWO MANAGEMENT-APPROVED INDIVIDUALS ENJOYING UNION SUPPORT. PRIVATE MANAGEMENT THUS RESUMES ITS NORMAL FUNCTIONS FOR FIRST TIME SINCE COMPANY TAKE-OVER BY WORKERS IN 1975.

6. COST OF LIVING: ON POINT TO POINT BASIS, FEBRUARY CONSUMER PRICE INDEX INCREASED BY 23.7 PERCENT OVER FEBRUARY 1977. FOOD AND BEVERAGES ROSE 28.4 PERCENT; GARMENTS AND FOOTWEAR, 15.9 PERCENT; HOUSEHOLD EXPENSES, INCLUDING WATER, GAS, ELECTRICITY, REFRIGERATORS AND FURNITURE, 22.8 PERCENT; MISCELLANEOUS COMPONENT, INCLUDING TOBACCO, TRANSPORTATION FARES, POSTAGE AND TELEPHONES, 15.4 PERCENT.

7. ESCUDO RATE: ESCUDO/DOLLAR BUY RATE, WHICH STOOD AT 40.378 ON MARCH 7, CLIMBED TO 40.869 ON MARCH 10 AND PASSED THE 41 ESCUDO LEVEL FOR THE FIRST TIME ON MONDAY, MARCH 13. RATE CLOSED ON MONDAY, MARCH 20 AT 40.685.
BLOOMFIELD

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Message Attributes

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Subject: ECONOMIC DEVELOPMENTS SUMMARY: HAVING SUBMITTED ITS REVISED 1978 BUDGET AND INVEST- MENT PLAN TO THE NATIONAL ASSEMBLY, GOP IS ANXIOUS
TAGS: ECON, EFIN, PO, IMF
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